

Message Text

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PAGE 01 MEXICO 09615 261949Z

51

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 HEW-08 STR-08 CEA-02

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 9363

INFO AMCONSUL CIUDAD JUAREZ UNN

AMCONSUL GUADALAJARA UNN

AMCONSUL HERMOSILLO UNN

AMCONSUL MATAMOROS UNN

AMCONSUL MAZATLAN UNN

AMCONSUL MERIDA UNN

AMCONSUL MONTERREY UNN

AMCONSUL NUEVO LAREDO UNN

AMCONSUL TIJUANA UNN

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E.O. 11652: N/A

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SUBJECT: GOM TREASURY SECRETARY DISCUSSES 1974 BUDGET,
INTERNATIONAL FINANCIAL MATTERS BEFORE MEXICAN CHAMBER OF
DEPUTIES

REF: MEXICO 9362

1. SUMMARY: GOM TREASURY SECRETARY LOPEZ PORTILLO APPEARED BEFORE
MEXICAN CONGRESS DECEMBER 20 TO COMMENT ON MEXICO'S 18.5
BILLION DOLLAR BUDGET FOR 1974 (REFTEL), WHICH HE DESCRIBED AS
"DEFLATIONARY" YET MEETING DEMANDS FOR SOCIAL JUSTICE IN AREAS
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PAGE 02 MEXICO 09615 261949Z

ECONOMIC DEVELOPMENT, PARTICULARLY IN RURAL SECTOR, AND IN

HEALTH, EDUCATION, AND WELFARE. LOPEZ PORTILLO STRONGLY DENIED RUMORS OF IMPENDING PESO DEVALUATION, POINTING TO MEXICO'S GROWING RESERVES, INCLUDING SECONDARY LINES SUCH AS RECENT INCREASE FROM 100 TO 200 MILLION DOLLARS IN EXCHANGE STABILIZATION AGREEMENT WITH U.S. TREASURY (MEXICO 9518). COMMENTS IN DAYS FOLLOWING LOPEZ PORTILLO APPEARANCE HAVE BEEN FAVORABLE, WITH ONE EDITORIAL NOTING THAT SPEECH SHOULD "DISPEL ALL FEARS" OF POSSIBLE DEVALUATION. WHILE AGREEING THAT STRONG, CONVINCING CASE WAS MADE BY TREASURY SECRETARY, EMBASSY SUSPECTS THAT PERENNIAL RUMORS PESO DEVALUATION WILL PERSIST. END SUMMARY.

2. MEXICO'S SECRETARY OF TREASURY AND PUBLIC CREDIT LIC. JOSE LOPEZ PORTILLO ON DEC. 20 MADE ANNUAL BUDGET SPEECH TO CHAMBER OF DEPUTIES. IN THE SPEECH HE DEFENDED THE 231 BILLION PESO (18.5 BILLION DOLLAR) 1974 BUDGET (REFTEL) AS "DEFLATIONARY" IN NATURE, POINTING OUT THAT THE BUDGET FOR NEXT YEAR WILL EXCEED ACTUAL 1973 EXPENDITURES BY ONLY 14 PERCENT AT CURRENT PRICES. AS THE MEXICAN TREASURY FORECASTS A 28 PERCENT INCREASE IN RECEIPTS, BASED ON IMPROVED COLLECTIO* AND HIGHER TAXES ON CARS, BEVERAGES, PETROLEUM PRODUCTS, AND ELECTRICITY AND TELEPHONE RATES, IT IS POSSIBLE THAT THERE MAY BE A SMALL SURPLUS ON THE GOM ACCOUNTS AT YEAR'S END 1974, LOPEZ PORTILLO INDICATED. HE OUTLINED THE GOM'S PROGRAM OF TIGHT MONETARY AND FISCAL POLICIES TO REDUCE INFLATIONARY PRESSURES, AND PREDICTED THAT INFLATION WOULD BE BROUGHT UNDER CONTROL NEXT YEAR (SEE MEXICO A-640 OF DEC 19), WHILE *ENYING THAT CREDIT "SQUEEZE" BEING APPLIED TO PRODUCTIVE ENTERPRISES. HE ADDED THAT BUDGET WAS DESIGNED TO PROVIDE NEEDED RESOURCES TO ELIMINATE SPECIFIC INFRASTRUCTURE BOTTLENECKS SO AS TO INCREASE PRODUCTION, WHILE AT THE SAME TIME KEEPING AGGREGATE EXPENDITURES DOWN TO A MINIMUM CONSISTENT WITH ECONOMIC GROWTH. THE TREASURY SECRETARY CLAIMED THAT MORE RECEIPTS DURING 1974 WILL BE USED TO REDUCE THE GOVERNMENT DEBT, DOMESTIC AND EXTERNAL, ADDING THAT FUNDING FOR NON-ESSENTIAL PUBLIC WORKS PROJECTS IS BEING ELIMINATED. TREASURY SECRETARY ALSO STRESSED THAT BUDGET MEETS NEEDS FOR SOCIAL JUSTICE IN MEXICO IN AREAS OF HEALTH, EDUCATION, AND WELFARE.

3. HOWEVER, MOST INTERESTING SECTION OF HIS ADDRESS CONCERNED INTERNATIONAL FINANCIAL POSITION OF PESO. LOPEZ PORTILLO SAID LIMITED OFFICIAL USE

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PAGE 03 MEXICO 09615 261949Z

THAT QUESTION OF DEVALUATION AND IMPOSITION EXCHANGE CONTROLS WAS "OUTSIDE ANY POSSIBILITY OF DISCUSSION", AND ATTACKED AS UNPATRIOTIC THOSE SPREADING SUCH UNFOUNDED RUMORS. HE POINTED TO MEXICO'S CURRENT STRONG RESERVE POSITION, ANNOUNCING THAT GROSS RESERVES HAVE GROWN FROM 820 MILLION DOLLARS IN DECEMBER 1970 TO 1.4 BILLION DOLLARS IN MID-DECEMBER 1973. HE ALSO POINTED TO SECONDARY LINES SUCH AS INCREASE IN U.S.-MEXICO EXCHANGE STABILIZATION AGREEMENT FROM 100 MILLION TO 200 MILLION DOLLARS

(MEXICO 9518), TO INCREASE IN MEXICAN IMF QUOTA, AND TO AGREEMENT WITH NEW YORK FEDERAL RESERVE BANK. AS PROOF INTERNATIONAL CONFIDENCE IN MEXICO, TREASURY SECRETARY CITED RECENT 500 MILLION DOLLAR DEVELOPMENT LOAN FROM INTERNATIONAL BANKING CONSORTIUM HEADED BY KUHN, LOEB.

4. MEXICAN PRESS HAS COMMENTED FAVORABLY ON LOPEZ PORTILLO ADDRESS, NOT ONLY ON ANTI-INFLATIONARY ASPECTS 1974 BUDGET, BUT ALSO ON HIS AT TIMES IMPASSIONED DEFENSE OF INTERNATIONAL POSITION OF THE PESO. SOLIDITY OF MEXICAN CURRENCY ON WORLD ECONOMIC SCENE WAS STRESSED BY LEADING MEXICAN DAILIES IN EDITORIALS IN DAYS FOLLOWING TREASURY SECRETARY'S TALKS, AND RUMOR-MONGERS, DESCRIBED INTER ALIA AS "SATANISTS" WERE STRONGLY ATTACKED.

5. COMMENTS: (1) EMBASSY INCLINED AGREE THAT 1974 BUDGET IS DESIGNED TO MEET GOM GOALS TO COMBAT INFLATION, MAINTAIN REASONABLE RATE ECONOMIC GROWTH, AND TO RESPOND TO SOCIAL NEEDS, ALTHOUGH WE DOUBT THAT BUDGET SURPLUS WILL IN FACT RESULT (SEE PARA 5 REFTTEL) AND BELIEVE THAT INFLATION WILL CONTINUE TO BE A MAJOR PROBLEM IN 1974; (2) DESPITE VERY CONVINCING CASE MADE BY TREASURY SECRETARY OF STRONG INTERNATIONAL POSITION PESO, AND OBVIOUS DETERMINATION GOM NOT TO DEVALUE OR TO IMPOSE EXCHANGE CONTROLS AT THIS TIME, WE SUSPECT THAT DEVALUATION RUMORS, WHICH ARE PERENNIAL HERE, WILL PERSIST.
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